

CITY OF MT. HOPE

MT. HOPE, KANSAS

Special Financial Statements

December 31, 2010

City of Mt. Hope, Kansas
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December 31, 2010

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

City Council
City of Mt. Hope
Mt. Hope, Kansas 67056

We have audited the accompanying financial statements of the City of Mt. Hope, Kansas, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative financial information has been derived from the City's 2009 financial statements and, in our report dated July 26, 2010, we expressed an unqualified opinion on the financial statements taken as a whole.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City prepares its financial statements using the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

In our opinion, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2010, the changes in financial position, or where applicable, its cash flows for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City as of December 31, 2010, and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Knudsen, Monroe & Company LLC

Certified Public Accountants

February 10, 2011

City of Mt. Hope, Kansas

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2010

<u>Funds</u>	Unencumbered Cash Balance 12-31-09	Receipts	Expenditures	Unencumbered Cash Balance 12-31-10	Encumbrances	Cash Balance 12-31-10
Governmental Fund Types:						
General	\$ 19,136	396,245	386,221	29,160	-	29,160
Special Revenue						
Library	-	21,044	20,500	544	-	544
Employee benefit	28,056	74,983	81,730	21,309	-	21,309
Special street and highway	15,633	34,207	4,750	45,090	4,750	49,840
Ambulance	-	3,368	3,368	-	-	-
Capital improvement	25,785	68,058	93,843	-	-	-
Equipment replacement fund	43,983	-	-	43,983	-	43,983
Debt Service						
Bond and interest	15,511	62,163	66,151	11,523	-	11,523
Capital Projects						
Drover's Crossing	3,741	373,914	377,655	-	-	-
Water Improvement	31,988	325,365	357,353	-	-	-
Proprietary Fund Types:						
Enterprise, page 3	247,410	889,099	847,925	288,584	14,768	303,352
Total Primary Government	431,243	2,248,446	2,239,496	440,193	19,518	459,711
Component Unit	14,749	36,011	40,312	10,448	715	11,163
Total Reporting Entity	\$ 445,992	2,284,457	2,279,808	450,641	20,233	470,874

City of Mt. Hope, Kansas

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2010

<u>Funds</u>	<u>Unencumbered</u>		<u>Receipts</u>	<u>Expenditures</u>	<u>Unencumbered</u>	
	<u>Cash Balance</u>	<u>12-31-09</u>			<u>Cash Balance</u>	<u>12-31-10</u>
Enterprise						
Electric	\$	106,092	694,558	668,000	132,650	132,650
Electric maintenance reserve		35,042	2,063	-	37,105	37,105
Sewer		10,536	47,411	36,939	21,008	26,208
Sewer reserve		10,371	476	-	10,847	10,847
Solid waste		11,865	68,815	75,010	5,670	5,670
Water		4,762	74,790	67,976	11,576	21,144
Water reserve		68,742	986	-	69,728	69,728
Total enterprise funds	\$	247,410	889,099	847,925	288,584	303,352

City of Mt. Hope, Kansas
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
Year ended December 31, 2010

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Over (Under)</u>
General	\$ 435,318	-	435,318	386,221	(49,097)
Special Revenue					
Library	20,500	-	20,500	20,500	-
Employee benefit	109,833	-	109,833	81,730	(28,103)
Special street and highway	52,640	-	52,640	4,750	(47,890)
Ambulance	6,000	-	6,000	3,368	(2,632)
Debt Service					
Bond and interest	73,124	-	73,124	66,151	(6,973)
Enterprise					
Electric	874,099	-	874,099	668,000	(206,099)
Sewer	52,512	-	52,512	36,939	(15,573)
Solid waste	86,233	-	86,233	75,010	(11,223)
Water	86,334	-	86,334	67,976	(18,358)
Expenditures subject to current budget	<u>\$ 1,796,593</u>	<u>-</u>	<u>1,796,593</u>	1,410,645	<u>(385,948)</u>
Add expenditures for unbudgeted funds					
Special Revenue				93,843	
Capital Projects				735,008	
Enterprise				-	
Total expenditures, Primary Government				<u>\$ 2,239,496</u>	

City of Mt. Hope, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance - Over (Under)
		Actual	Budget	
RECEIPTS				
Ad valorem property tax	\$ 126,019	140,713	140,883	(170)
Delinquent tax	3,379	9,335	-	9,335
Machinery and equipment tax	556	-	-	-
Vehicle tax	22,536	22,769	24,067	(1,298)
Local sales tax	110,112	106,806	115,000	(8,194)
Fines and fees	2,910	4,691	9,000	(4,309)
Fire protection fees	10,419	9,821	10,000	(179)
Franchise tax	16,662	13,961	15,960	(1,999)
Late charges	17,494	12,228	19,000	(6,772)
Police other	8	645	-	645
Swimming pool	8,917	10,658	9,800	858
Licenses and permits	3,206	3,087	3,350	(263)
Other	6,326	5,289	4,400	889
Interest	2,027	2,770	3,000	(230)
State collections	3,183	3,400	-	3,400
Reimbursements	112	72	700	(628)
Transfers from other funds	51,500	50,000	50,000	-
	385,366	396,245	405,160	(8,915)
EXPENDITURES, page 6	405,050	386,221		
Receipts over (under) expenditures	(19,684)	10,024		
UNENCUMBERED CASH, beginning	38,820	19,136		
UNENCUMBERED CASH, ending	\$ 19,136	29,160		

City of Mt. Hope, Kansas

General Fund**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance - Over (Under)
		Actual	Budget	
EXPENDITURES				
Administration	\$ 79,256	125,912	85,050	40,862
Street	32,145	7,927	35,700	(27,773)
Police	90,104	84,389	123,668	(39,279)
Fire	22,478	12,228	21,700	(9,472)
Ballpark	1,938	829	1,500	(671)
Park	13,734	11,476	17,600	(6,124)
Swimming pool	41,397	37,582	37,000	582
Court and legal	4,973	4,664	12,000	(7,336)
Zoning	1,257	129	2,000	(1,871)
Community projects	5,674	4,356	2,100	2,256
Library appropriation	2,257	243	2,000	(1,757)
Ambulance subsidy	58,798	57,545	64,000	(6,455)
Economic development	8,403	7,828	14,000	(6,172)
Capital outlay	7,653	4,570	-	4,570
Other	483	27	2,000	(1,973)
Transfers to other funds	34,500	26,516	15,000	11,516
Total expenditures	<u>\$ 405,050</u>	<u>386,221</u>	<u>435,318</u>	<u>(49,097)</u>

City of Mt. Hope, Kansas

Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

		2010		
	2009 Actual	Actual	Budget	Variance - Over (Under)
<u>LIBRARY</u>				
RECEIPTS				
Ad valorem property tax	\$ 15,754	17,066	17,093	(27)
Delinquent tax	440	1,127	-	1,127
Machinery and equipment tax	65	-	-	-
Vehicle tax	2,743	2,851	3,008	(157)
	<u>19,002</u>	<u>21,044</u>	<u>20,101</u>	<u>943</u>
EXPENDITURES				
Appropriations to Library Board	<u>19,926</u>	<u>20,500</u>	<u>20,500</u>	<u>-</u>
Receipts over (under) expenditures	(924)	544		
UNENCUMBERED CASH, beginning	<u>924</u>	<u>-</u>		
UNENCUMBERED CASH, ending	<u>\$ -</u>	<u>544</u>		
<u>EMPLOYEE BENEFIT</u>				
RECEIPTS				
Ad valorem property tax	\$ 47,001	32,250	32,285	(35)
Delinquent tax	1,239	3,226	-	3,226
Machinery and equipment tax	207	-	-	-
Vehicle tax	8,546	8,497	8,972	(475)
Other	-	510	4,573	(4,063)
Transfers from other funds	<u>30,500</u>	<u>30,500</u>	<u>30,500</u>	<u>-</u>
	<u>87,493</u>	<u>74,983</u>	<u>76,330</u>	<u>(1,347)</u>
EXPENDITURES				
Health insurance	35,620	38,168	54,000	(15,832)
Health insurance reserve	7,601	10,412	19,000	(8,588)
Unemployment tax	235	237	350	(113)
KPERS	11,305	14,775	17,500	(2,725)
Social security	18,359	18,138	18,738	(600)
Miscellaneous	<u>-</u>	<u>-</u>	<u>245</u>	<u>(245)</u>
	<u>73,120</u>	<u>81,730</u>	<u>109,833</u>	<u>(28,103)</u>
Receipts over (under) expenditures	14,373	(6,747)		
UNENCUMBERED CASH, beginning	<u>13,683</u>	<u>28,056</u>		
UNENCUMBERED CASH, ending	<u>\$ 28,056</u>	<u>21,309</u>		

City of Mt. Hope, Kansas

Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

		2010		
	2009 Actual	Actual	Budget	Variance - Over (Under)
<u>SPECIAL STREET AND HIGHWAY</u>				
RECEIPTS				
State gasoline tax	\$ 21,569	23,222	24,730	(1,508)
County gasoline tax	10,292	10,985	12,170	(1,185)
	<u>31,861</u>	<u>34,207</u>	<u>36,900</u>	<u>(2,693)</u>
EXPENDITURES				
Contractual	-	4,750	-	4,750
Capital outlay	69,338	-	52,640	(52,640)
	<u>69,338</u>	<u>4,750</u>	<u>52,640</u>	<u>(47,890)</u>
Receipts over (under) expenditures	(37,477)	29,457		
UNENCUMBERED CASH, beginning	53,110	15,633		
UNENCUMBERED CASH, ending	<u>\$ 15,633</u>	<u>45,090</u>		
 <u>AMBULANCE</u>				
RECEIPTS				
Sedgwick County	\$ 3,912	3,368	<u>6,000</u>	<u>(2,632)</u>
EXPENDITURES				
Contractual services	<u>3,912</u>	<u>3,368</u>	<u>6,000</u>	<u>(2,632)</u>
Receipts over (under) expenditures	-	-		
UNENCUMBERED CASH, beginning	-	-		
UNENCUMBERED CASH, ending	<u>\$ -</u>	<u>-</u>		

City of Mt. Hope, Kansas

Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

		2010		
	2009 Actual	Actual	Budget	Variance - Over (Under)
<u>CAPITAL IMPROVEMENT</u>				
RECEIPTS				
Interest	\$ 287	-		
Insurance proceeds	8,337	40,555		
Oak Street park improvement-contributions	5,411	15,266		
State grant - Wildlife and Parks	22,012	-		
Transfers from other funds	15,000	12,237		
	<u>51,047</u>	<u>68,058</u>		
EXPENDITURES				
Roof Repairs	-	49,541		
Oak Street park improvements	66,961	44,302		NOT APPLICABLE
	<u>66,961</u>	<u>93,843</u>		
Receipts over (under) expenditures	(15,914)	(25,785)		
UNENCUMBERED CASH, beginning	41,699	25,785		
UNENCUMBERED CASH, ending	<u>\$ 25,785</u>	<u>-</u>		
<u>EQUIPMENT REPLACEMENT</u>				
RECEIPTS				
Interest	\$ 185	-		
Other	2,805	-		
Transfers from other funds	19,500	-		
	<u>22,490</u>	<u>-</u>		
EXPENDITURES				
Capital outlay - park	21,150	-		
Capital outlay - police	14,154	-		
Capital outlay - fire	32,044	-		NOT APPLICABLE
	<u>67,348</u>	<u>-</u>		
Receipts over (under) expenditures	(44,858)	-		
UNENCUMBERED CASH, beginning	88,841	43,983		
UNENCUMBERED CASH, ending	<u>\$ 43,983</u>	<u>43,983</u>		

City of Mt. Hope, Kansas

Debt Service Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

		2010		Variance - Over (Under)
	2009 Actual	Actual	Budget	
<u>BOND AND INTEREST</u>				
RECEIPTS				
Delinquent tax	\$ 245	86	-	86
Special assessments	35,401	28,389	24,020	4,369
Transfers from other funds	31,833	33,688	33,688	-
	<u>67,479</u>	<u>62,163</u>	<u>57,708</u>	<u>4,455</u>
EXPENDITURES				
Bond principal	40,000	45,000	45,000	-
Interest	14,275	12,485	11,798	687
Postage and commission	3	8,666	4	8,662
Cash basis reserve	-	-	16,322	(16,322)
	<u>54,278</u>	<u>66,151</u>	<u>73,124</u>	<u>(6,973)</u>
Receipts over (under) expenditures	13,201	(3,988)		
UNENCUMBERED CASH, beginning	<u>2,310</u>	<u>15,511</u>		
UNENCUMBERED CASH, ending	<u>\$ 15,511</u>	<u>11,523</u>		

See notes to financial statements

City of Mt. Hope, Kansas

Capital Project Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET*

Year ended December 31, 2010

	<u>Drover's Crossing</u>	<u>Water Improvement</u>	<u>Total</u>
RECEIPTS			
General Obligation Bond Proceeds	\$ 373,914	311,086	685,000
Transfers from other funds	-	14,279	14,279
	<u>373,914</u>	<u>325,365</u>	<u>699,279</u>
EXPENDITURES			
Temporary note principal payments	350,000	277,000	627,000
Temporary note interest payments	27,127	22,195	49,322
Bond expenses	528	-	528
Contractual services	-	58,158	58,158
	<u>377,655</u>	<u>357,353</u>	<u>735,008</u>
Receipts over (under) expenditures	(3,741)	(31,988)	(35,729)
UNENCUMBERED CASH, beginning	<u>3,741</u>	<u>31,988</u>	<u>35,729</u>
UNENCUMBERED CASH, ending	<u>\$ -</u>	<u>-</u>	<u>-</u>

* Annual adopted budget is not applicable for capital projects.

City of Mt. Hope, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

		2010		Variance -
	2009	Actual	Budget	Over
	Actual			(Under)
<u>ELECTRIC</u>				
RECEIPTS				
Sales	\$ 612,832	684,013	668,200	15,813
Miscellaneous	11,687	10,545	3,000	7,545
	<u>624,519</u>	<u>694,558</u>	<u>671,200</u>	<u>23,358</u>
EXPENDITURES				
Personnel services	76,702	77,096	80,550	(3,454)
Contractual services	384,016	401,330	352,000	49,330
Commodities	49,260	37,405	65,000	(27,595)
Capital outlay	148,039	68,171	243,549	(175,378)
Transfers to other funds	82,000	80,500	130,500	(50,000)
Other	1,720	3,498	2,500	998
	<u>741,737</u>	<u>668,000</u>	<u>874,099</u>	<u>(206,099)</u>
Receipts over (under) expenditures	(117,218)	26,558		
UNENCUMBERED CASH, beginning	<u>223,310</u>	<u>106,092</u>		
UNENCUMBERED CASH, ending	<u>\$ 106,092</u>	<u>132,650</u>		
<u>ELECTRIC MAINTENANCE RESERVE</u>				
RECEIPTS				
Interest	\$ 3,140	2,063		
EXPENDITURES				
Capital outlay	-	-	NOT APPLICABLE	
Receipts over (under) expenditures	3,140	2,063		
UNENCUMBERED CASH, beginning	<u>31,902</u>	<u>35,042</u>		
UNENCUMBERED CASH, ending	<u>\$ 35,042</u>	<u>37,105</u>		

City of Mt. Hope, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

		2010		Variance - Over (Under)
	2009 Actual	Actual	Budget	
<u>SEWER</u>				
RECEIPTS				
User fees	\$ 47,386	47,361	49,000	(1,639)
Other	582	50	1,650	(1,600)
	<u>47,968</u>	<u>47,411</u>	<u>50,650</u>	<u>(3,239)</u>
EXPENDITURES				
Personnel services	10,093	42	11,900	(11,858)
Contractual services	9,926	12,841	9,000	3,841
Commodities	9,514	16,056	9,500	6,556
Capital outlay	19,303	-	14,112	(14,112)
Transfers to other funds	7,158	8,000	8,000	-
	<u>55,994</u>	<u>36,939</u>	<u>52,512</u>	<u>(15,573)</u>
Receipts over (under) expenditures	(8,026)	10,472		
UNENCUMBERED CASH, beginning	18,562	10,536		
UNENCUMBERED CASH, ending	<u>\$ 10,536</u>	<u>21,008</u>		
<u>SEWER RESERVE</u>				
RECEIPTS				
Interest	\$ 528	476		
EXPENDITURES				
Capital outlay	<u>25,575</u>	<u>-</u>	NOT APPLICABLE	
Receipts over (under) expenditures	(25,047)	476		
UNENCUMBERED CASH, beginning	35,418	10,371		
UNENCUMBERED CASH, ending	<u>\$ 10,371</u>	<u>10,847</u>		

City of Mt. Hope, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

		2010		Variance -
	2009			Over
	Actual	Actual	Budget	(Under)
<u>SOLID WASTE</u>				
RECEIPTS				
User fees	\$ 67,043	68,755	73,000	(4,245)
Other	72	60	100	(40)
	<u>67,115</u>	<u>68,815</u>	<u>73,100</u>	<u>(4,285)</u>
EXPENDITURES				
Personnel services	3,427	3,274	3,675	(401)
Contractual services	62,101	66,743	74,300	(7,557)
Commodities	1,436	4,993	5,000	(7)
Capital Outlay	-	-	3,258	(3,258)
	<u>66,964</u>	<u>75,010</u>	<u>86,233</u>	<u>(11,223)</u>
Receipts over (under) expenditures	151	(6,195)		
UNENCUMBERED CASH, beginning	<u>11,714</u>	<u>11,865</u>		
UNENCUMBERED CASH, ending	<u>\$ 11,865</u>	<u>5,670</u>		

City of Mt. Hope, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

		2010		
	2009 Actual	Actual	Budget	Variance - Over (Under)
<u>WATER</u>				
RECEIPTS				
Sales	\$ 52,845	55,496	60,000	(4,504)
Fees	19,297	18,638	20,000	(1,362)
Other	-	656	-	656
	<u>72,142</u>	<u>74,790</u>	<u>80,000</u>	<u>(5,210)</u>
EXPENDITURES				
Personnel services	4,636	42	4,900	(4,858)
Contractual services	21,543	25,987	23,550	2,437
Commodities	12,995	16,259	10,000	6,259
Capital outlay	-	-	7,197	(7,197)
Transfers to other funds	<u>32,675</u>	<u>25,688</u>	<u>40,687</u>	<u>(14,999)</u>
	<u>71,849</u>	<u>67,976</u>	<u>86,334</u>	<u>(18,358)</u>
Receipts over (under) expenditures	293	6,814		
UNENCUMBERED CASH, beginning	<u>4,469</u>	<u>4,762</u>		
UNENCUMBERED CASH, ending	<u>\$ 4,762</u>	<u>11,576</u>		
<u>WATER RESERVE</u>				
RECEIPTS				
Interest	\$ 1,032	986		
Transfers from other funds	<u>8,000</u>	<u>-</u>		
	<u>9,032</u>	<u>986</u>		
EXPENDITURES				
Capital outlay	<u>-</u>	<u>-</u>	NOT APPLICABLE	
Receipts over (under) expenditures	9,032	986		
UNENCUMBERED CASH, beginning	<u>59,710</u>	<u>68,742</u>		
UNENCUMBERED CASH, ending	<u>\$ 68,742</u>	<u>69,728</u>		

City of Mt. Hope, Kansas
Component Unit
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>LIBRARY BOARD</u>		
RECEIPTS		
City of Mt. Hope	\$ 20,500	19,926
SCKLS and other grants	5,461	5,706
State aid	665	725
Township appropriation	7,276	7,547
Fundraising	70	2,168
Interest	103	106
Other	1,936	2,393
	<u>36,011</u>	<u>38,571</u>
EXPENDITURES		
Personnel services	18,914	16,451
Books, periodicals and materials	13,806	10,640
Operating supplies and commodities	5,850	2,339
Telephone and utilities	1,742	1,449
Capital outlay	-	2,253
Other	-	1,842
	<u>40,312</u>	<u>34,974</u>
Receipts over (under) expenditures	(4,301)	3,597
UNENCUMBERED CASH, beginning	14,749	11,152
UNENCUMBERED CASH, ending	<u>\$ 10,448</u>	<u>14,749</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Mt. Hope is a municipal corporation governed by an elected five-member council. These financial statements present the City of Mt. Hope (the primary government) and its component unit. The component unit is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The component unit section of the financial statements includes the financial data of the discretely presented component unit. This component unit is reported separately to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City.

1. Library Board--The City of Mt. Hope Library Board operates the City's public library. The City provides funding for the library through special revenue and general fund appropriations.

Basis of Accounting

These financial statements are presented on a statutory basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made. The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles

The basis of presentation described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown non-cash assets such as receivables, inventories and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

2. FUND DESCRIPTION

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds comprise the financial activities of the City for the year of 2010:

Governmental Funds

General Fund--to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds--to account for the proceeds of specific revenue sources, other than special assessments or major capital projects, that are restricted by law or administrative action to expenditures for specified purposes.

Debt Service Fund--to account for the accumulation of resources for and the payment of interest and principal on general long-term debt, and the financing of special assessments which are general obligations of the City.

Capital Project Funds--to account for financial resources segregated for the acquisition of major capital facilities other than those financed by Enterprise Funds.

Proprietary Funds

Enterprise Funds--to account for operations that are financed and operated in a manner similar to private business enterprises--where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service fund and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
2. Public hearing on or before August 15th, but at least ten days after publication on notice of hearing.
3. Adoption of the final budget on or before August 25th.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

3. BUDGETARY INFORMATION (Continued)

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The 2010 budget was not amended.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified cash basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital project funds, enterprise reserve accounts, and the following special revenue funds:

1. Capital Improvement
2. Equipment Replacement

Spending in funds that are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

4. COMPLIANCE WITH KANSAS STATUTES

Management is not aware of any statutory violation incurred in the year ended December 31, 2010.

5. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories that may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no investment policy that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. As of December 31, 2010, the City's investments included only bank savings accounts and certificates of deposit with a fair value of \$328,578, which are not subject to investment rating.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

5. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City has not designated peak periods. All deposits were legally secured at December 31, 2010.

At December 31, 2010, the carrying amount of the City's deposits, including component units, was \$470,874. The bank balance totaled \$485,031. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$397,896 was covered by FDIC insurance and the remaining \$87,135 was collateralized with securities held by the pledging financial institution's agents in the City's name.

Composition of Cash Balance

The cash balance consisted of the following at December 31, 2010:

	Primary Government	Component Units	Total
Petty cash	\$ 200	-	200
Financial institution deposits			
Checking accounts:			
Operating	121,365	2,605	123,970
Customer deposits	9,568	-	9,568
Savings and time deposits:			
Idle funds	328,578	8,558	337,136
	<u>\$ 459,711</u>	<u>11,163</u>	<u>470,874</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

6. CAPITAL IMPROVEMENT PROJECTS

During the year 2008, the City began improvements to the Drover's Crossing development and various water improvements. These projects were financed with temporary notes and replaced with a general obligation bond issue. At December 31, 2010, capital project authorizations compared with expenditures from inception are as follows:

	<u>Project Authorization</u>	<u>Expenditures to date</u>
Drover's Crossing	\$ <u>392,000</u>	<u>373,914</u>
Water Improvements	\$ <u>350,000</u>	<u>325,365</u>

7. LONG-TERM DEBT

In June 2010, the City issued general obligation bonds in the amount of \$685,000 to redeem, pay and cancel Temporary Improvement Notes, Series 2008 and Series B, 2008.

Changes in the long-term liabilities for the City for the year ended December 31, 2010 were as follows:

Year ended December 31, 2010									
<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Maturity Date</u>	<u>Balance 12-31-09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12-31-10</u>	<u>Interest Paid 2010</u>
Temporary Notes:									
Drover's Crossing	4.00%	07/01/08	350,000	07/01/10	\$ 350,000	-	350,000	-	27,127
Water Improvement	4.25%	09/09/08	277,000	09/09/10	<u>277,000</u>	-	<u>277,000</u>	-	<u>22,195</u>
					<u>627,000</u>	-	<u>627,000</u>	-	<u>49,322</u>
General Obligation Bonds:									
Series 2005	3.55-4.45%	08/17/05	335,000	12/01/20	270,000	-	20,000	250,000	11,110
Series 2010	4.00%	06/29/10	685,000	12/01/30	-	<u>685,000</u>	-	<u>685,000</u>	-
					<u>270,000</u>	<u>685,000</u>	<u>20,000</u>	<u>935,000</u>	<u>11,110</u>
Revenue Bonds:									
Series 1996	5.50%	01/01/96	240,000	12/01/10	<u>25,000</u>	-	<u>25,000</u>	-	<u>1,375</u>
Total Long-Term Debt					<u>\$ 922,000</u>	<u>685,000</u>	<u>672,000</u>	<u>935,000</u>	<u>61,807</u>

Current maturities of long-term debt and interest through maturity are as follows:

	Year ending December 31								
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016-2020</u>	<u>2021-2025</u>	<u>2026-2030</u>	<u>Total</u>
Principal									
General Obligation Bonds	\$ 35,000	50,000	50,000	55,000	60,000	325,000	235,000	125,000	935,000
Total principal	<u>35,000</u>	<u>50,000</u>	<u>50,000</u>	<u>55,000</u>	<u>60,000</u>	<u>325,000</u>	<u>235,000</u>	<u>125,000</u>	<u>935,000</u>
Interest									
General Obligation Bonds	49,369	36,460	34,490	32,510	30,310	113,870	54,000	15,000	366,009
Total interest	<u>49,369</u>	<u>36,460</u>	<u>34,490</u>	<u>32,510</u>	<u>30,310</u>	<u>113,870</u>	<u>54,000</u>	<u>15,000</u>	<u>366,009</u>
Total principal and interest	<u>\$ 84,369</u>	<u>86,460</u>	<u>84,490</u>	<u>87,510</u>	<u>90,310</u>	<u>438,870</u>	<u>289,000</u>	<u>140,000</u>	<u>1,301,009</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

8. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Mt. Hope contributes to the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERs member-employee contribution rate at 4% or 6% of covered salary, depending when eligibility began. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERs employers. The employer rate established by statute was 6.14% at December 31, 2010. The City of Mt. Hope contribution to KPERs for the year ending December 31, 2010, 2009 and 2008 were \$14,775, \$11,305 and \$10,698 equal to the statutory required contribution for the year.

9. COMPENSATED ABSENCES

Full-time employees earn paid vacation according to the following schedule:

Years of continuous service	0-5	5-10	10-20	20+
Hours earned per month	6.66	8.50	10.00	13.20
Maximum hours accumulation	80	104	120	160

Unused vacation time has not been recorded as a liability in accompanying financial statements.

Full-time employees earn eight hours of sick leave for each month of service which can be accumulated to a maximum of 480 hours. Unused sick leave is not paid to employees upon termination. Unused sick leave has not been recorded in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

10. INTERFUND TRANSFERS

Transfers between funds consisted of the following during the year ended December 31, 2010:

<u>Transfers To</u>	<u>Transfers From</u>				<u>Total</u>
	<u>General</u>	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	
General	\$ -	50,000	-	-	50,000
Employee Benefit	-	30,500	-	-	30,500
Capital Improvement	12,237	-	-	-	12,237
Capital Project Funds	14,279	-	-	-	14,279
Bond and Interest	-	-	8,000	25,688	33,688
	<u>\$ 26,516</u>	<u>80,500</u>	<u>8,000</u>	<u>25,688</u>	<u>140,704</u>

11. SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to December 31, 2010, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through February 10, 2011, which is the date at which the financial statements were available to be issued.